

5 euros

1585

4/10

Business Journal Deutsche Börse Group

STRUCTURE

MARKETS

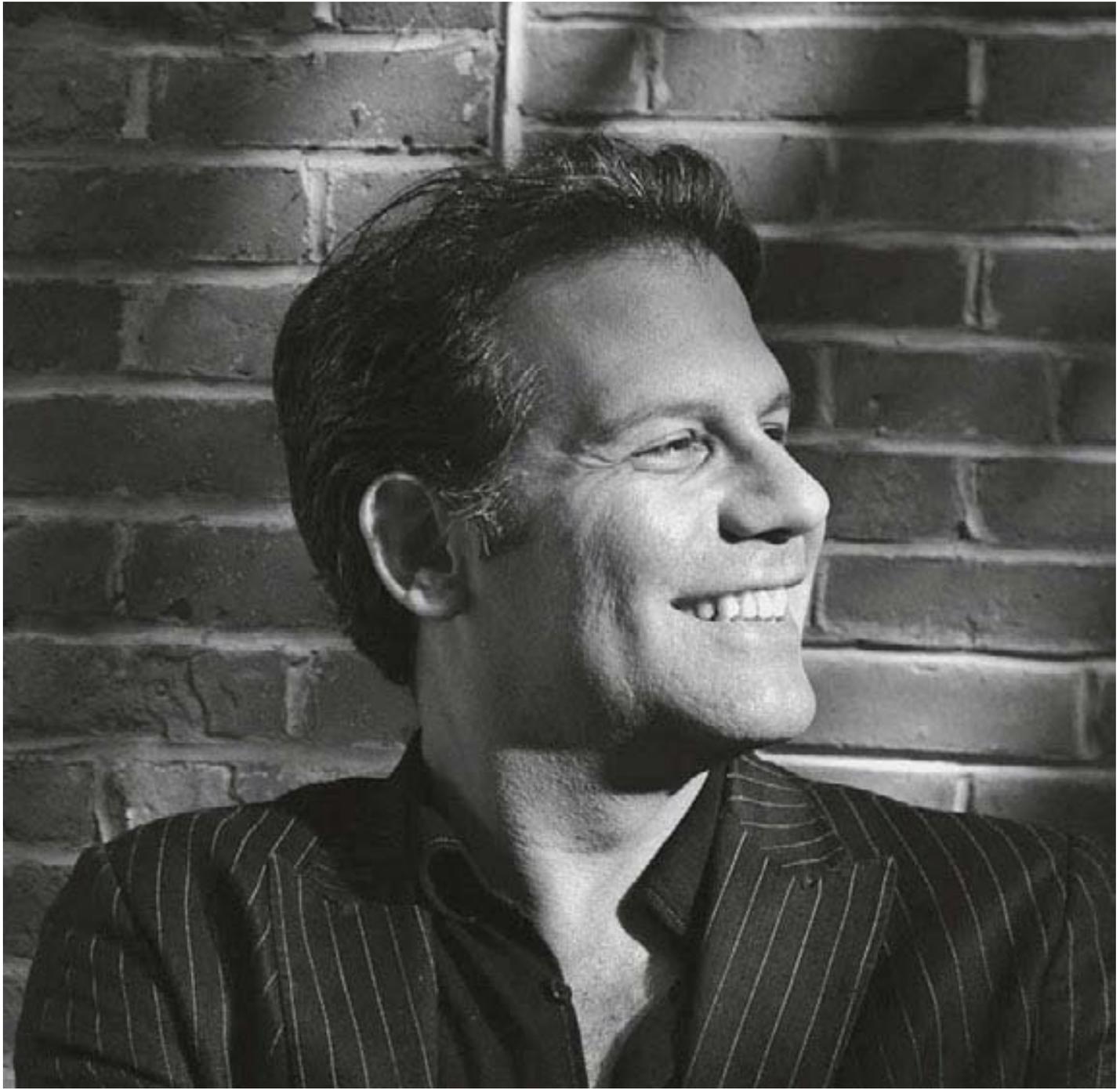
Economists redesign trading

METROPOLISES

The sustainable city of the future

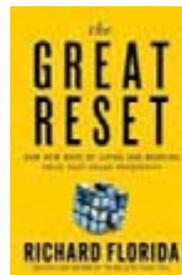
MODELS

Researchers look for the formula of all wars



“MEGA-REGIONS ARE THE NEW PARAMETER”

It was not only the financial market that caused this last crisis in the opinion of US urbanist **Richard Florida**—also at fault were obsolete settlement structures. In order to raise capitalism to a new, viable foundation, the economist and best-selling author is pinning his hopes on a fusion of urban and rural areas, more high-speed trains and mobile apartment nomads.



Urbanist, economist, successful author

Richard Florida attempts through his research to distill the recipe of success of creative centers. He is the director of the Martin Prosperity Institute and teaches at the University of Toronto's Rotman School of Management. The bestselling author also sells his insights and views as a speaker and founder of the "Creative Class Group" (www.creativeclass.com).

For Florida, the "creative class" is the driving force behind growth. He counts scientists, engineers, designers, filmmakers and artists among its ranks, but also lawyers, bankers and healthcare providers—according to Florida's estimate a total of some 150 million people worldwide. What they have in common are a good education, open-mindedness and high mobility.

Florida has described the phenomenon in a handful of books, including "The Rise of the Creative Class" (2002), "The Flight of the Creative Class" (2005), "Who's Your City?" (2008) and "The Great Reset" (2010).

PROFESSOR FLORIDA, you are known for your analysis of the "creative class"—the multitude of innovative knowledge workers that is allowing cities and regions to boom. With a view to the most recent economic crisis, you speak of the "third Great Reset." How can the global economic collapse since 2008 be explained from the perspective of human capital?

National economies experience highs and lows and need to realign themselves from time to time in order create room for innovation. This kind of thing happens every few generations. A genuine reset changes not only the way we produce and innovate. It also leads to a new economic landscape, new infrastructures, transportation systems and settlement patterns.

If the most recent crisis is the third Great Reset, what were its two predecessors like—and what consequences did they have?

The first reset of capitalism came with the Panic of 1873 in the US; the second followed throughout the western world with the Great Depression in the 1930s. The reset in the 19th century initiated a period of unprecedented inventiveness: the steam engine, electricity, the automobile, a new approach to research and development. People moved from agrarian villages and small towns into concentrated industrial locations. However, after the Great Depression, millions left the densely populated cities in search of free space—thus creating the suburbs, promoted by cars and road building. If you look at the map, the demographic focus in the US has shifted overall by around 450 kilometers (280 miles) to the west and 150 kilometers (93 miles) to the south in the past 100 years.

And does today's reset resemble the historical rise of large industrial centers or the triumphal advance of the suburbs?

Similar to the Long Depression of 1873, we are currently experiencing the rise of a new economic order. In recent decades we have laid the foundations for a creative economy—high-tech, a well-educated labor force, greater attention to art, culture and entertainment. The system is immensely productive. But it is precisely this productivity and innovative power that overstrained society's capacity to change.

What is the source of the imbalance—a simple discrepancy between supply and demand?

No, there is more at issue here. Our social and economic orders are incompatible with a creative economy. The most recent crash was to an amazing extent caused by geographic factors. The bursting of the real estate and financial market bubbles indicates that the economic order and especially the settlement form of vast suburbs are obsolete. We need to develop a new spatial order.

What exactly do you mean by a new spatial order?

The term "spatial fix" was coined by geographer David Harvey in mid-1970s. He uses it to describe capitalism's attempts to solve its

inner crises through spatial expansion and restructuring. New technologies alone cannot lead us out of the crisis. You need to factor in real estate and geography—to create a new physical framework for the further development and growth of the capitalist economic system.

That sounds like a large dose of Karl Marx.

My work has always been influenced by Karl Marx and the Austrian economist Joseph Schumpeter, and I still believe that Marx of all classical economists delivers the best explanation for the dynamic nature of capitalism. He describes the development of this market regime excellently. Schumpeter contributed the role of technical innovation and creativity that make the system significantly more resilient than Marx thought. Nonetheless, they both neglected the significance of geography. Economists like Harvey introduced a very important concept: Capitalism not only defines itself according to classes, but also by how the parts of the system are embedded in the physical environment. I would like to bring this idea into public debate. We will not be able to create an upswing by merely saving industries, setting up economic stimulus programs or tweaking exchange rates. A lasting upswing will only work given a new spatial order.

And what could this be, if you don't mind us asking?

First of all, we finally need to throw out the tradition and false separation between city and environs. Other structures are crucial, namely the new mega-regions. We are currently experiencing the rise of the

corridor from Boston to New York to Washington, of regions like Amsterdam-Antwerp-Brussels and the economic region of Frankfurt-Stuttgart to name but a few. Such mega-regions are the parameter of the future; some 40 of them exist worldwide.

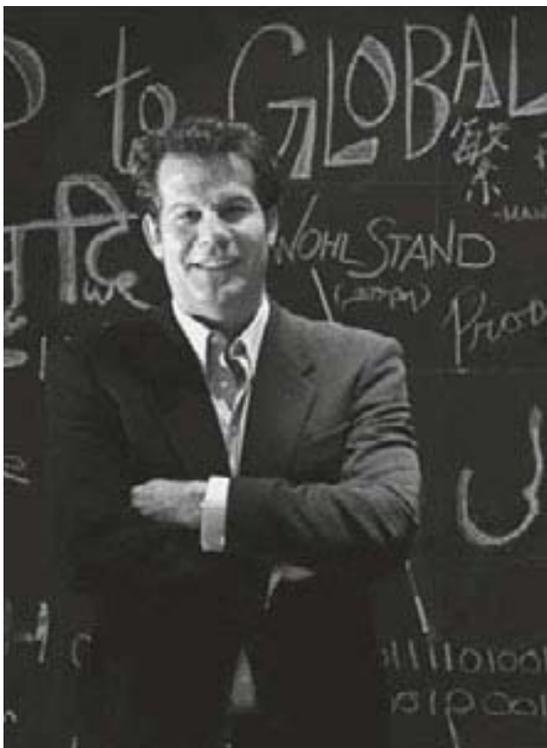
Isn't there a growth limit for such conurbations, where the disadvantages start to outweigh the advantages?

Mega-regions can continue to grow and prosper. Their dynamic is peculiar: Normally, the metabolism of an organism slows down with increasing size, but in the case of a city the opposite is true. A city with its fast energy turnover can overcome setbacks faster, absorb available workforce and bring forth new companies. We will experience new mega-regions with even higher density—these new cityscapes are large, fast and green.

Many large cities suffer from ailing infrastructure and finance problems. What are the priorities for the major restructuring?

Transport has top priority. Each new spatial order has increased the turnover rate of people, goods and ideas. Our highways can no longer accommodate this, and constant traffic jams cost us productivity, time

▼ **Location counts:** digital economy with no geographical constraints? Richard Florida is more likely to propagate the comeback of classic economics of location and structure.



and energy. This is why we need to invest in high-speed trains. In 2020, China alone will have more high-speed rail links than the rest of the world. In comparison, the US seems like a developing country.

Does it really matter whether we fly, drive a car or take the train in the new economic order?

High-speed trains allow distances to shrink: They allow a city to more or less loan its proximity to a center, and they make success scalable. The mega-regions need to be better connected within themselves and to each other. Once flexible work hours, home- and tele-work become routine, such rail links will represent a lifeline. They can connect dying towns with booming ones, enabling even desolate locations to recover. This brings me to a second problem that we need to address: a more flexible lifestyle, so that people can move with their work.

The US real estate market is still stuck in a deep crisis. Many are either being forced to move out of their homes or are tied to towns where there is no work.

Over the past 50 years, owning one's own home has become a cornerstone of the American Dream. Now we need to overcome our obsession with residential property. Mobility and flexibility are the key to the modern economy, which is why rented housing is so important. Short distances are more beneficial to society and the individual than having to commute daily or holding onto one's own home at all cost. I'm not by any means arguing that everyone should rent, but we need to find a healthy balance. The residential segment in the US has shot up to 68 percent. If you consider competitive metropolises, then a sustainable ratio would be 55 to 60 percent.

How can we achieve this ratio?

There are already such models as "plug-and-play" apartments where the tenant signs a contract with a large provider and can simply move when the job requires it. Or why doesn't the state buy the houses of hard-pressed owners and rent them back to them? The regulation that enables homeowners to offset their mortgage interest from their taxes is a sacred cow in the US that needs to be slaughtered. This favors the uneconomic allocation of scarce resources.

But it certainly would not increase the election chances of the politicians.

Nonetheless, it is necessary. We finally need to stop supporting the old order, not only with regards to residential property: Put an end to rescue packages for badly managed and dying industries. Put an end to big projects like conference centers or sports stadiums. These do not create value or new production capacities. Instead, regions with location disadvantages need to concentrate on two tasks: They need to develop their strengths on a small scale by investing in lively districts, human capital and small companies. And they need to develop a fast mode of transportation that connects them with other locations. Proximity to a rich region is a good way to increase one's own prosperity.

Who are the winners and losers of the reset?

I have identified three factors that are becoming increasingly important: technology, talent and tolerance. Cities and regions that are able to pool these three Ts, and hence a valuable workforce, innovative and knowledge-intensive activities, will win in the long term. ■